

Message Text

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R 242300Z JUL 74

FM SECSTATE WASHDC

TO AMEMBASSY TRIPOLI

USINT ALGIERS

C O N F I D E N T I A L STATE 117824

FOLLOWING REPEAT STATE 117824 ACTION QUITO 6 JULY.

QUOTE

C O N F I D E N T I A L STATE 117824

FOLLOWING TELEGRAM FROM SECSTATE WASHDC DATED JUNE 5, 1974

SENT CARACAS IS REPEATED TO YOU: QUOTE

C O N F I D E N T I A L STATE 117824

FOLLOWING REPEAT STATE 117824 ACTION BRUSSELS INFO BONN ROME
COPENHAGEN DUBLIN THE HAGUE OSLO LONDON LUXEMBOURG OTTAWA
TOKYO PARIS EC BRUSSELS OECD PARIS JUNE 5TH

QUOTE

C O N F I D E N T I A L STATE 117824

E.O. 11652 GDS

SUBJ: OPEC MEETING QUITO JUNE 15

REF: BRUSSELS 3706

1. EMBASSY BRUSSELS SHOULD PROVIDE REPRESENTATIVE FOR
MEETING ON ABOVE SUBJECT IN BELGIAN FOREIGN OFFICE,
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WED. JUNE 5 AT 1700 HOURS, WHICH WE HAVE REPORTED TO

YOU IN SEPTEL.

2. USG REP SHOULD SAY USG SHARES CONCERN EXPRESSED BY BELGIANS AND OTHERS ABOUT PROSPECTS THAT OPEN MEMBERS AT QUITO MEETING WILL THROUGH INCREASE IN TAX RATE ON COMPANIES EQUITY OIL RAISE CRUDE PRICES. WE HAVE SOME DOUBTS AT THIS POINT ABOUT USEFULNESS GENERAL APPROACHES BY USG TO ALL OPEC COUNTRIES BUT WE WILL TAKE ADVANTAGE OF THIS WEEK'S WASHINGTON VISIT OF SAUDI ARABIA'S PRINCE FAHD AND PETROLEUM MINISTER YAMANI TO DISCUSS CONCERNS RE OIL PRICE AND QUITO MEETING. FOLLOWING THIS MEETING, WE WILL CONSIDER WHAT OTHER APPROACHES WE CAN MAKE TO OPEC COUNTRIES WHICH MIGHT BE USEFUL. IN THE MEANTIME WE DO NOT WISH TO DISCOURAGE OTHER OPEC COUNTRIES OR OTHER CONSUMERS FROM MAKING ANY APPROACHES THEY MIGHT CONSIDER USEFUL.

3. FOR INFORMATION OF THE ADDRESSEES OF THIS MESSAGE, FOLLOWING IS WHAT WE KNOW OF LIKELY SUBSTANCE QUITO

MEETING ON OIL TAXES AND PRICES:

4. THERE ARE STRONG INDICATIONS THAT THERE WILL BE A MAJOR EFFORT AT THE QUITO OPEC MEETING TO INCREASE GOVERNMENT TAKE, WITH A RESULTING SUBSTANTIAL INCREASE IN THE PER BARREL PRICE OF OIL. REPORTEDLY THIS WOULD BE ACCOMPLISHED BY INCREASING THE INCOME TAX RATE FROM 55 PERCENT TO 87 PERCENT. CALCULATIONS BY OPEC TECHNICIANS, TAKING AS AN EXAMPLE THE POSTED PRICE OF ARABIAN LIGHT CRUDE (DOLS 11.65 PER BARREL, AND ASSUMING A REALIZED PRICE OF 93 PERCENT OF POSTINGS (DOLS 10.84 PER BARREL), INDICATE THAT THE NEW TAX RATES WOULD RESULT IN A GOVERNMENT TAKE OF DOLS 10.24 PER BARREL AND A TAX PAID COST OF DOLS 10.34 PER BARREL, LEAVING THE COMPANIES A MARGIN OF 49.7 CENTS ON A MARKET PRICE OF DOLS 10.84 PER BARREL. THE JUSTIFICATION WOULD BE BASED ON REMOVAL OF "EXCESS OR WINDFALL PROFITS".

5. THE OIL COMPANIES TAKE ISSUE WITH ASSERTIONS THAT THEY ARE REALIZING PROFITS OF DOLS 3 AND DOLS 4 PER BARREL ON MIDDLE EAST OIL. THESE ALLEGED EXCESS PROFITS
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ARE SIMPLY THE DIFFERENCE BETWEEN 93 PERCENT OF POSTED PRICE FOR ARABIAN LIGHT CRUDE (DOLS 10.84) AND THE COMPANIES TAX PAID COST FOR THE EQUITY CRUDE (DOLS 7.12). THE COMPANIES NOTE THAT, ASSUMING 60 PERCENT PRODUCER GOVERNMENT PARTICIPATION, THE AVERAGE BETWEEN THE EQUITY AND BUY BACK (AT 93 PERCENT OF POSTED) COSTS OF OIL TO THEM IS DOLS 9.27 A BARREL. THEY ARE MOVING OIL TO THEIR AFFILIATES AT REASONABLY CLOSE TO THIS

COST SINCE PRODUCT PRICES IN THEIR MARKETS ARE INADEQUATE TO ALLOW OTHERWISE. IF OPEC MEMBERS RAISE THE TAX RATE TO 87 PERCENT THEN THIS AVERAGE COST WILL RISE TO DOLS 10.63. THUS THE COMPANIES SEE A SIGNIFICANT INCREASE OF DOLS 1.35 OR MORE IN THE PER BARREL COST OF OIL TO CONSUMERS. AS FOR THE VERY LARGE PROFITS THEY HAVE BEEN EARNING THE COMPANIES POINT TO THE SPECIAL ONE-TIME EFFECTS OF FOREIGN EXCHANGE GAINS AND PROFITS REALIZED FROM REVALUING OF LOW COST INVENTORIES.

6. IT IS SOMEWHAT ANOMALOUS, BUT NOT SURPRISING THAT THE OPEC PROPOSAL TO RAISE TAXES COMES AT A TIME WHEN THE WORLD MARKET HAS SHOWN CLEAR SIGNS OF SOFTNESS. OPEC COUNTRIES HAVE ENCOUNTERED RESISTANCE TO THEIR EFFORTS DIRECTLY TO MARKET "PARTICIPATION" OIL AT 93 PERCENT OF POSTED PRICE. THE TAX PROPOSAL MAY THUS BE SEEN AS AN EFFORT TO SUSTAIN HIGH PRICES BY FORCING THE COMPANIES TO RAISE THEIR PRICES TO A LEVEL EQUIVALENT TO THE 93 PERCENT POSTINGS.

7. YAMANI HAS PUBLICLY OPPOSED FURTHER INCREASE IN CRUDE OIL PRICES. MOST RECENTLY (MAY 31) HE IS QUOTED AS PROPOSING TO CUT THE POSTED PRICE OF ARABIAN LIGHT CRUDE TO DOLS 9 PER BARREL F.O.B. RAS TANURA AND AS STATING THAT SAUDI ARABIA WILL NOT ASSOCIATE ITSELF WITH ANY MOVE TO TAX THE EXCESS PROFITS WHICH THE COMPANIES REALIZE ON THEIR EQUITY CRUDE. HE SUPPORTED THIS LATTER POSITION ON THE GROUNDS THAT SAUDI ARABIA WAS NOW IN THE PROCESS OF NEGOTIATING A NEW AGREEMENT WITH THE ARAMCO OWNERS AND WAS NOT YET ABLE TO DECIDE ON A CHANGE IN THE FISCAL SYSTEM APPLICABLE TO THE OIL COMPANIES. KISSINGER UNQUOTE SISCO UNQUOTE SISCO UNQUOTE KISSINGER
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